IOWA STUDENT LOAN LIQUIDITY CORPORATION

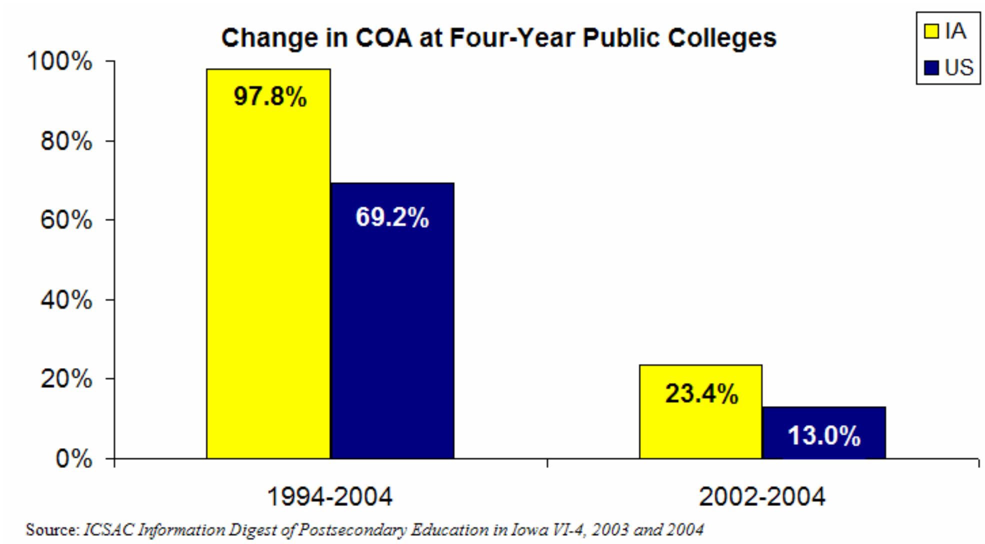
# Research Pertaining to Undergraduate Student and Parent Student Loan Indebtedness Levels

May 2007

**In recent years, data shows Iowa undergraduate student indebtedness has grown to be among the largest in the nation. Why?**

Research conducted by Iowa Student Loan has identified the key statistically significant reasons for this finding, which clearly identify increasing college costs, below average family income, relative static sources of other financial aid, and data reporting that provides an incomplete view of total family educational debt from school to school or state to state as probable causes. Available data and statistical analysis suggests a number of the key causes. Those causes and supporting data are discussed in the pages that follow. These findings are also consistent with recent national reports, as cited in Congressional testimony.

## 1. **COST OF ATTENDANCE FOR COLLEGE HAS RAPIDLY INCREASED IN IOWA –** much faster than the national average since the mid-1990s.




The cost of attendance (COA) for four-year public schools in Iowa has increased 97.8% between 1994 and 2004 and 23.4% between 2002 and 2004 while the US average has increased 69.2% from 1994 to 2004 and 13.0% from 2002 to 2004[1]. The average COA for Iowa public four-year schools has increased faster than the national average and has increased very rapidly in recent years with similar trends in two-year colleges. The average COA for independent colleges in Iowa has increased 54.4%* while the US average has increased 64.5%* between 1994 and 2004 [2].

A small change in COA (25%) is magnified into a larger discrepancy in COA not met by aid (34%) and unmet need (81%) as seen in the table below. A small difference in COA when comparing Iowa to other states can result in a disproportionately higher unmet need.

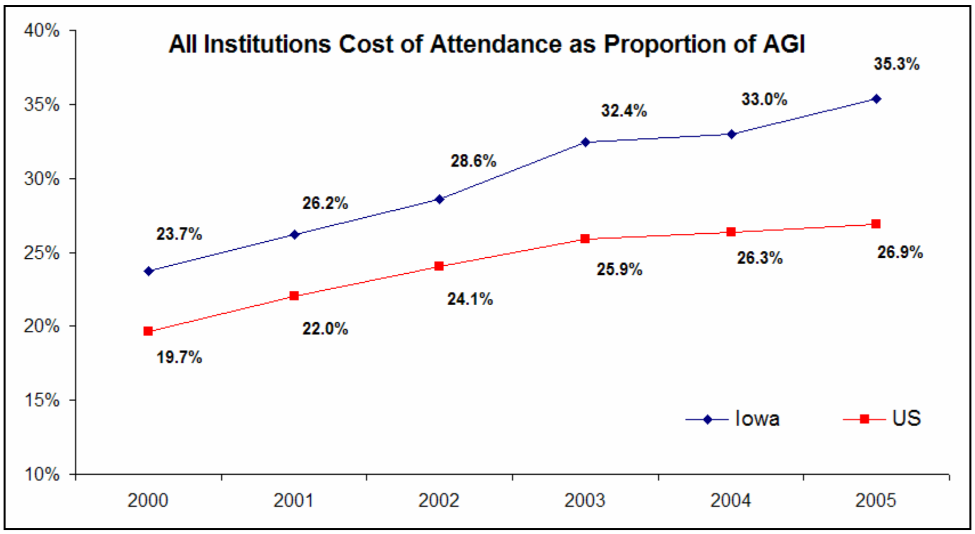
| | Time 1 | Time 2 | Δ |
|---|---|---|---|
| COA | $12,000 | $15,000 | 25% |
| Aid | $3,300 | $3,300 | |
| COA Not Met by Aid | $8,700 | $11,700 | 34% |
| EFC | $5,000 | $5,000 | |
| Unmet Need | $3,700 | $6,700 | 81% |
| PLP/PLUS/Private Eligibility | $8,700 | $11,700 | |

* These rates do not account for changes in the practice of tuition discounting and the true rates may be different.

[1] Source: *ICSAC Information Digest of Postsecondary Education in Iowa VI-4, 2003 and 2004*
[2] Source: *NCES Education Digest of Education Statistics 1995-2005*

2. **FAMILY INCOMES IN IOWA TRAIL THE NATIONAL AVERAGE** by approximately $7,000 per year, meaning less family resources (also known as expected family contribution) are available for college education expenses.

Using 2004 adjusted gross income (AGI), Iowa ranked 36th in the US with a weighted average AGI of $43,478[3]. The US weighted average AGI in 2004 was $50,680[3]. Iowa has a significantly lower AGI than the nation. AGI is used in determining expected family contribution (EFC).




The US experienced growth (in 2005 dollars) in AGI for six of the eight years between 1998 and 2005[4]; AGI in Iowa fell short of that national growth in five of those years. Combining COA and the smaller increases in AGI in Iowa magnifies the differences when looking at COA as a proportion of AGI; the burden on Iowa students is consistently higher and the gap is widening slightly.

The average EFC in Iowa has increased from $9,635 in 2000 to $10,071 in 2004; a 7.7% decrease in constant 2004 dollars[5]. The average US EFC has increased from $10,730 to $12,016; a 0.5% decrease (no real change) in constant 2004 dollars[5].


Based on increasing COA and decreasing EFC, average need in Iowa is higher than the US.

3 Source: http://www.irs.gov/taxstats/indtaxstats/article/0,,id=103106,00.html
4 Source: http://www.irs.gov/taxstats/article/0,,id=171535,00.html
5 Source: *Online DAS-T Online Version 5.0 using NPSAS:04 data and NPSAS:00*

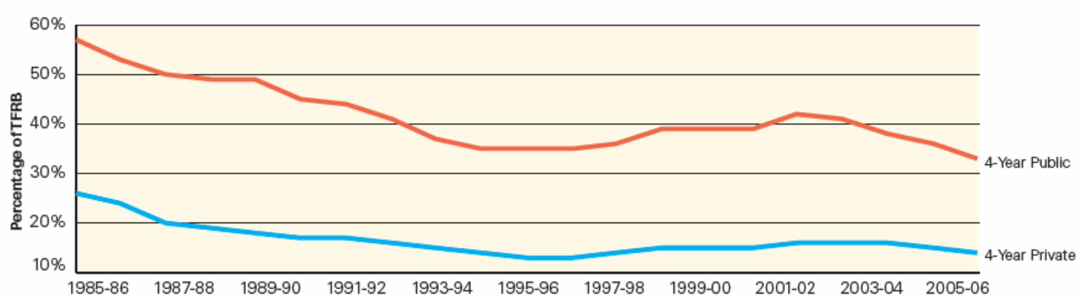
## 3. **COLLEGE PARTICIPATION REMAINS HIGH** by Iowa high school graduates ─ among the highest in the nation, meaning that demand for college continues even as pricing increases.

More residents in Iowa participate in postsecondary education than any other state in the US. Combining data from the 2003 IPEDS data (using the DCT online tool) with population figures from the US Census Bureau[(6)] it can be shown that Iowa ranks first in the US when computing the proportion of the population classified as first-time degree seeking students in any state, resulting in more students with higher need attending college in Iowa.

## 4. **PURCHASING POWER OF GRANTS FOR NEEDIEST FAMILIES IS DECREASING** ─ federal programs such as Pell Grants have not kept pace with higher education inflation, meaning a higher percentage of cost must be paid by other means, especially for private college students.

The purchasing power of the Pell Grant has declined significantly. When introduced, Pell Grants covered 75% of the averaged published COA. The proportion of the average published COA at a public four-year college or university that could be met by a Pell Grant declined from 42% in 2001-02 to 33% in 2005-06[(7)].

Maximum Pell As a Percentage of Published Tuition, Fee, Room, and Board (TFRB) Charges at Public and Private Four-Year Colleges and Universities, 1985-86 to 2005-06




The proportion of the average published price of tuition, fees, room, and board at a public four-year college or university that could be met by a Pell Grant declined from 42 percent in 2001-02 to 33 percent in 2005-06.

- The maximum Pell Grant, which increased from $4,000 to $4,050 in 2003-04, remains at that level.
- The maximum Pell Grant increased by 45 percent from $3,006 (in 2005 dollars) in 1995-96 to $4,348 in 2002-03.
- The value of the maximum grant declined by $298 in constant 2005 dollars between 2002-03 and 2005-06.

The percentage of COA covered by a Pell Grant is much smaller for those attending independent schools – Iowa has a large proportion of independent schools.

[6] Source: http://www.census.gov/popest/datasets.html *and IPEDS 2003*
[7] Source: *College Board 2006 Trends in Student Aid: Pell Grants* (http://www.collegeboard.com/prod_downloads/press/cost06/trends_aid_06.pdf)

## 5. FEDERAL GUARANTEED LOAN MAXIMUMS FOR ALL FAMILIES HAVE NOT KEPT PACE WITH EDUCATION COST INCREASES – for all practical purposes these limits have been decreasing in purchasing power for some time; again meaning families have to find additional ways to raise funds for college.

The Higher Education Price Index (HEPI) is a measure of inflation on a basket of goods related to higher education. The HEPI has increased 64% since 1992(8).

The federal loan lifetime maximum for dependent undergraduates has been set at $23,000 since 1992. If the loan limit had increased with inflation, it would now be at $37,759.

The total federal loan dollars available for a dependent undergraduate student for 4 years has been $17,125 since 1993 and increased to $19,000 in 2007. If this limit had increased with inflation since 1993, it would now be $27,331 in today's dollars which leaves a $10,000 gap.

## 6. STATE AID PROGRAMS IN IOWA HAVE NOT KEPT PACE WITH INFLATION IN COLLEGE COSTS and those that are available tend to be available to only a relatively small number of students.

Iowa has been in the top 20 states in state dollars per student (receiving state grants) from 2002-2004 but Iowa's rank has been declining. The Regents schools fare worse, ranking near the bottom in dollars per student in 2002 (47th), 2003 (47th) and 2004 (46th) when compared to the states(9).

The proportion of students receiving state aid in Iowa is very low compared to the other states. Although the "per student" amount for those receiving it is reasonable, few students in Iowa are receiving the aid(9).

| State Aid Proportion | 2002 | 2003 | 2004 |
|---|---|---|---|
| US Minimum | 1.2% | 2.4% | 0.7% |
| US Median | 23.5% | 22.8% | 23.4% |
| US Maximum | 69.8% | 66.6% | 68.4% |
| US Mean | 26.6% | 25.6% | 26.1% |
| IA Mean | 18.7% | 16.9% | 15.3% |
| IA Rank | 39 | 39 | 43 |
| Regents Mean | 6.8% | 9.9% | 10.6% |
| Regents Rank | 48 | 46 | 47 |

[8] Source: http://www.commonfund.org/Templates/Generic/RESOURCE_REQUEST/target.pdf?RES_GUID=BA6F90EC-2BE6-4BF4-9D19-D68AE8367B1B

[9] Source: *IPEDS DCT Online Tool – 2002, 2003 and 2004 data*

## 7. STUDENTS WHO ATTEND IOWA SCHOOLS WHERE PRIVATE LOANS ARE PACKAGED WITH OTHER FINANCIAL AID HAVE A NOTABLY HIGHER LEVEL OF NEED FOR ADDITIONAL FUNDS FOR COLLEGE THAN THE NATIONAL AVERAGE.

Some schools in Iowa package private loans with other financial aid. "Private loans packaged" Iowa schools have students with a greater need than "private loans not packaged" Iowa schools[(10)]. The gap has been increasing in recent years. Community colleges are reported separately because the cost of attendance (COA) is lower at a community college.

| | Proportion of Students Receiving Pell Grants | | | |
|---|---|---|---|---|
| | IA Private Loans Packaged | IA Private Loans Not Packaged | Community Colleges | US |
| 2002 | 25.4% | 21.9% | 25.5% | 23.6% |
| 2003 | 38.2% | 22.3% | 26.3% | 24.7% |
| 2004 | 40.0% | 22.5% | 23.8% | 25.5% |

Students attending "private loans packaged" Iowa schools borrow significantly more than students attending "private loans not packaged" Iowa schools[(10)].

| | Calculated Average Annual $ Borrowed per Student | | | |
|---|---|---|---|---|
| | IA Private Loans Packaged | IA Private Loans Not Packaged | Community Colleges | US |
| 2002 | $5,249 | $3,325 | $2,805 | $3,023 |
| 2003 | $5,703 | $3,968 | $2,798 | $2,938 |
| 2004 | $6,685 | $3,941 | $3,348 | $3,358 |

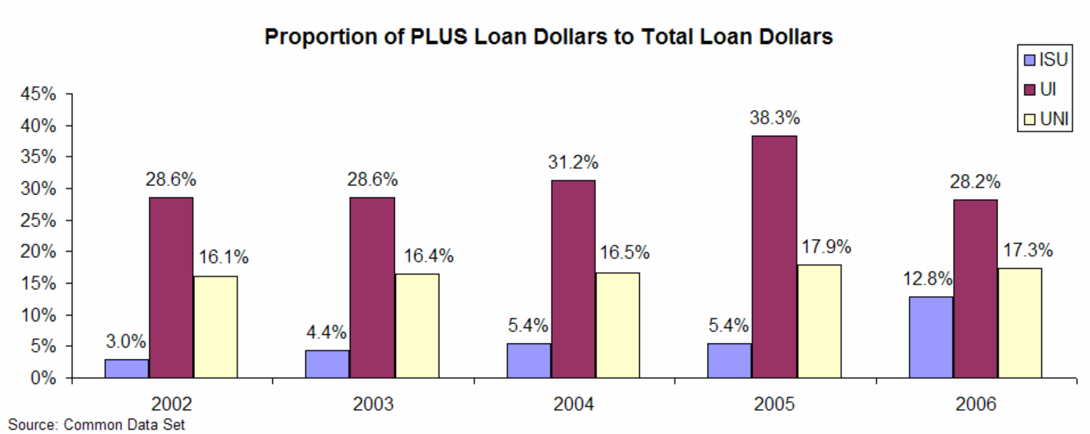
[10] Source: https://cod.ed.gov/cod/NLSchoolSearchPage and *College Board 2006 Trends in Student Aid: Pell Grants*

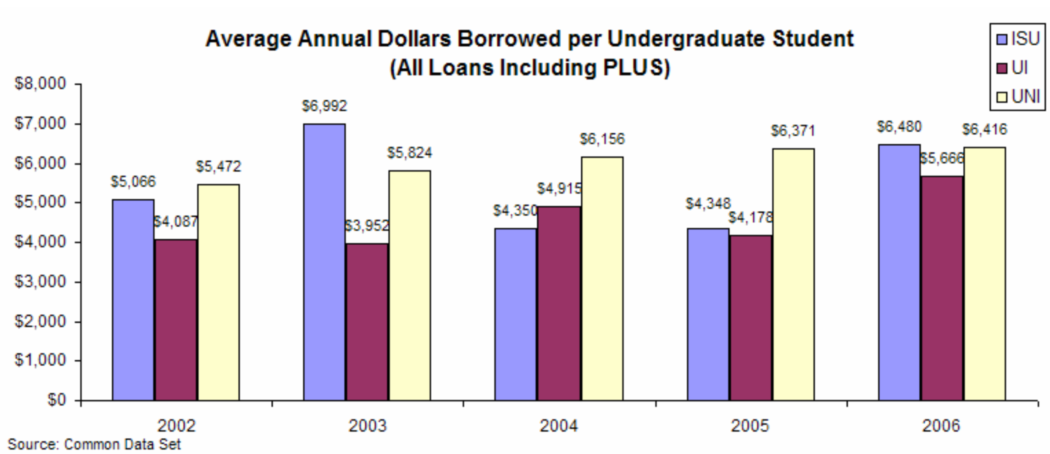
8. **DATA REPORTING PROVIDES AN INCOMPLETE VIEW OF FAMILY EDUCATION DEBT LOADS** by including some types of loans while excluding others, most notably the PLUS loans taken out by families to help pay for college costs.

There is a difference between reported **student debt** and **total family educational debt**. PLUS loans are not included in the reported average **student debt burden** reported by colleges in the Common Data Set and many other educational data sources.

NPSAS 2003-2004 data shows that the average **student debt** increases from $17,036 to an average **total family educational debt** of $21,899 when PLUS loans are included; a 28.5% increase[(11)].

Iowa-specific NPSAS data is not available due to low sample size. Data for the Regents schools is available through the Common Data Set.




[11] Source: http://www.finaid.org/loans/

## Our research is consistent with other recent national findings coming to light relating to the importance of college cost pressures in creating demand for more loans, especially for middle income families.

### College Costs & the "Middle Class Squeeze"

**(Source: *EFC Weekly*, May 11, 2007, p.6; Education Finance Council)**

Senate Finance Committee members met this week to examine factors significantly contributing to the middle class "squeeze." While members and witnesses pointed to numerous causes, college costs were cited as a key strain on middle income families.

According to Committee Chairman Max Baucus (D-MT), college costs, along with excessive corporation profits, low wages and salaries as a share of the total economy, and rising health-care and gasoline costs top the list of reasons why middle income families are experiencing difficulty making ends meet. Baucus argued that "the story of middle class families makes a good case for middle-class tax relief" adding that it also "…argues for making college more affordable."

Noteworthy in the day's hearing was testimony of Elizabeth Warren, a Leo Gottlieb Professor of Law at Harvard Law School, who in her prepared testimony asserted that "Americans see a college degree as the single most important determinant of a young person's chances of future success, their ticket to the future. But it is becoming harder than ever for families to pay for that ticket. Costs are rising and family savings are falling, and that leaves many middle class families deeply worried. The high costs of college have hit middle class families especially hard. As a group, these students are unable to rely on family income or savings to pay for college, so they shoulder large debt loads."

Warren offered a stern warning to Committee members, arguing that "Every cut in the federally funded student loan program is a cut felt directly by middle class families. Policy tradeoffs pit low-income students, eligible for grants, against moderate-income students who must rely on loans, leaving both groups scrambling to try to find a way to pay for the college educations they need. Underfunding grant programs for low-income students is a mistake, but making middle class students pay for increases in grant programs by cutting their access to loan programs is a bigger mistake. College is the ticket to security and success."

Warren offered Committee members two recommendations related to college financing. First, that "adequate" federal loans be made available to all students, with enough money to cover four years of room, board, tuition and books (pegged to state university costs). Second, that repayment options after graduation be altered to include public service, as well as dollar repayment. As an example, Warren suggested that a year of college expenses be forgiven for each year the graduate works in public service.

Also testifying before the Committee were: Gary Burtless, the John C. and Nancy D. Whitehead Chair in Economic Studies at the Brookings Institution; Sarah Blackburn, social worker for the Billings Clinic in Billings, MT; and Scott Hodge, President of the Tax Foundation.
Witness testimony and member statements are available online for download at: http://finance.senate.gov/sitepages/hearing051007.htm.

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